

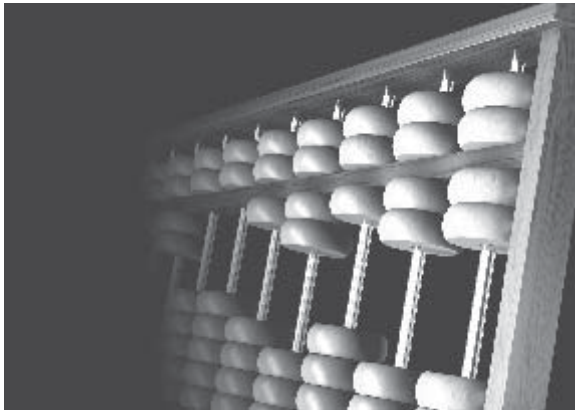
Tax Liability on WRS Benefits





Table of Contents

Investment in Contract (IIC).....	2
Lump Sum Benefits.....	2
Monthly Annuities.....	3
Minimum Distribution Requirements.....	4
Rollovers.....	4
Death Benefits.....	5
Payments Exempt from Wisconsin Taxes.....	5
Wisconsin Department of Revenue Offices.....	7
For Additional Information.....	8



This booklet provides general information about the income tax liability on your Wisconsin Retirement System (WRS) benefits. The tax treatment of WRS benefits is generally similar for federal and Wisconsin income tax purposes. There are a few exceptions such as retirement payments received by certain beneficiaries and teachers which are exempt for Wisconsin income tax purposes but not for federal purposes. See Payments Exempt from Wisconsin Income Tax, page 5.

If you are not a resident of Wisconsin, you are not required to pay Wisconsin income tax. You should check with the tax department in the state where you reside for information on your state tax liability with them.

Investment in Contract (IIC)

The amount of your WRS benefit which is non-taxable is based on your "Investment in Contract" (IIC). The Internal Revenue Service (IRS) refers to your IIC as your "cost in the plan." Your IIC is the portion of your retirement account that was actually paid by you from after-tax dollars, generally through payroll deductions; the rest of your account consists of accrued interest and contributions paid by your employer(s). If you have made regular additional contributions, your IIC is calculated separately for your additional account. If you have made tax-deferred additional contributions (employees of certain educational organizations only), there is no IIC for those contributions because

tax-deferred contributions are always fully taxable when a benefit is paid.

Your IIC for your required contributions is provided at the bottom of the "Employee Required Contributions" section on your annual Statement of Benefits.

Lump Sum Benefits

The amount of your benefit in excess of your IIC is fully taxable when paid. Under federal law, if you do not directly roll over the taxable portion of your lump sum payment into an eligible employer plan or a traditional Individual Retirement Account/Annuity (IRA), the Department must withhold 20% of the taxable portion of your payment as federal income tax.

IIC contributions may also be rolled over (except not to Sec. 457 governmental deferred compensation plans) if the receiving plan is prepared to account for these contributions separately. Consult your tax advisor for information.

EARLY DISTRIBUTION TAX: In addition to federal and state income taxes, there is also an additional 10% federal tax on the taxable portion of any lump sum payment made to you before you reach age 59½ *. You should contact your tax consultant or the IRS for information about other exemptions from this tax, such as for death benefits, payments made pursuant to a Qualified Domestic Relations Order, or withdrawals due to total and permanent disability.

This additional tax will not be deducted from your payment; you should contact your tax consultant or the IRS for reporting information.

A 1099-R form which shows the amount of income tax withheld (if applicable) and the taxable and non-taxable portions of your benefit will be enclosed with your check.

*In some instances, this may not apply if you terminated covered employment in the year you reached age 55 or later.

Keep your copy of the 1099-R; you will need it when you file your income tax returns for the year in which the check is issued.

For information about time limits, restrictions, etc., which could affect your rollover eligibility or information about capital gains treatment or the 10-year tax option, contact your tax consultant or your nearest IRS office.

Monthly Annuities

The amount of your monthly annuity in excess of your IIC will be subject to tax in the year it is paid to you. This Department will calculate the taxable amount for you.

For further information about how annuities are taxed, refer to IRS Publication 575. For further assistance, contact the Internal Revenue Service or the Wisconsin Department of Revenue.

When you apply for your annuity, be sure to complete the income tax withholding information on the form provided. It is possible that your withholding election will result in no tax being withheld, depending on the taxable amount of your benefit and the withholding election that you make. If you do not specify how you want taxes withheld, federal regulations require us to withhold according to the tax tables assuming you are married with three exemptions.

Wisconsin law does not require that state income tax be withheld from your monthly annuity. However, you may request that Wisconsin income tax be withheld.

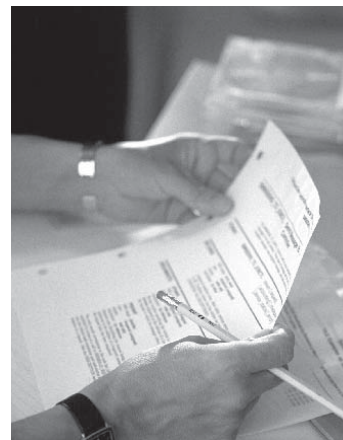
We cannot withhold state taxes for any other state than Wisconsin.

If you do not have Wisconsin income tax withheld and you are a resident of Wisconsin, you may be required to make estimated tax payments. Generally, if you would have to pay \$200 or more with your income tax return, you must prepay your tax each year by making estimated tax payments. Estimated tax payments are made by filing an

Estimated Tax Voucher, Form 1-ES. Failure to make required estimated tax payments may result in interest being assessed on the underpayment amount. You can obtain further information and Form 1-ES from any Department of Revenue office.

NOTE: If you receive payments from an annuity certain of less than ten years from your additional contributions, federal law requires your total tax withholding to equal at least 20% of the taxable portion of your annuity certain payments, unless you directly roll over the taxable portion of your payments into an eligible employer plan or a traditional Individual Retirement Account (IRA). However, if you begin an annuity certain of less than ten years in the year in which you reach age 70½ or later, a portion of your benefit is a required minimum distribution under federal law. Federal withholding is voluntary on the required minimum distribution amount; the mandatory 20% withholding applies only to the portion of your benefit in excess of that amount. The required minimum distribution amount cannot be rolled over. If you have made additional contributions and take an annuity certain prior to age 59½, there may also be a 10% federal early distribution tax on the taxable portion of those monthly payments paid to you before you reach age 59½.

You can change your withholding election at any time by requesting and completing an *Income Tax Withholding Election* form (ET-4310) or by calling our toll-free self-service line at 1-877-383-1888 or (608) 266-2323 (local Madison). Allow at least six weeks after we receive your election for the change to be reflected in your monthly payments.



In January of each year, an annuitant 1099-R form for the prior year is mailed to your home

address. (You must notify us promptly of any changes in your home address.) The 1099-R includes information such as the total and taxable amounts of your annuity for the past year, your original IIC, the amounts of federal and state tax withheld, insurance premiums deducted, etc. A copy of this form must be filed with your tax returns for the prior year.

If you have multiple WRS annuity records, for example, you receive an annuity from your own WRS account and as a beneficiary of another account, you will receive a separate annual 1099-R tax statement for each of your annuity accounts. These will be mailed in separate envelopes and may arrive on separate days. It is important that you file copies of all your 1099-R forms with your annual tax returns.

If you receive a disability annuity, contact your tax consultant or your nearest IRS office for information about possible special tax treatment of your disability annuity.

Minimum Distribution Requirements

If you have an inactive account with the WRS, federal law and Wisconsin statutes require you to receive a minimum distribution amount each year beginning with the year in which you reach age 70½.

If you do not apply for your WRS benefit on a timely basis, we are required by law to begin an automatic distribution of your WRS account to you.

Wisconsin statutes limit the optional forms of payment in which you can receive your WRS contributions; this could affect when your benefit must begin to meet the minimum distribution requirement. If you will be terminated from covered WRS employment in your



70½ year, you should request WRS annuity estimates up to one year in advance and begin your benefit during that year. For further information about meeting the federal minimum distribution requirement, contact the IRS or your tax consultant.

Rollovers

You are generally eligible to roll over WRS payments paid as lump sum distributions or as an annuity certain paid for a period of less than ten years (see Exception below). Federal law requires the Department to withhold 20% of the taxable portion of lump sum payments and monthly payments from annuities certain of less than ten years, unless you directly roll over these payments into an eligible employer plan or a traditional Individual Retirement Account (IRA).

EXCEPTION: Lump sum benefits of less than \$200 cannot be rolled over and the 20% mandatory withholding does not apply. Also, if you take a lump sum benefit or begin an annuity certain of less than ten years (from additional contributions only) in the year in which you reach age 70½ or later, a portion of your benefit is a required minimum distribution under federal law. Federal tax withholding is voluntary on the required minimum distribution amount; the mandatory 20% withholding applies only to the portion of your benefit in excess of that amount. The required minimum distribution amount cannot be rolled over.

Required and regular additional and tax-deferred additional contributions can be rolled over into traditional IRAs, Sec. 403(b) tax sheltered annuity plans, Sec. 457(b) governmental deferred compensation plans, or another eligible employer plan. You can request that part or all of your payment(s) be directly rolled over; however, we must withhold the 20% from any taxable portion that is not directly rolled over. With a direct rollover the WRS issues a check payable directly to the

other plan or IRA. To request a direct rollover you must submit an *Authorization for Direct Rollover* form (ET-7355) to the Department with your application for benefits. This form is available from the Department of Employee Trust Funds. If you request a direct rollover, the check for any portion not being directly rolled over will be issued payable directly to you.

If you do not request a direct rollover, any payment will be issued payable to you. Your payment will be taxable in the year in which it is issued unless you roll it over into an eligible employer plan or IRA within 60 days. However, the Department must still withhold 20% of the taxable portion of your benefit. If the taxable amount exceeds the amount you receive after the 20% is withheld and you wish to roll over the full taxable amount, you must obtain the remainder from other sources.

Whether a payment is issued directly to you or you elect a direct rollover, all payments will be mailed to your address. If you wish to roll over your payment, you are responsible for transmitting it to the receiving financial institution.

Death Benefits

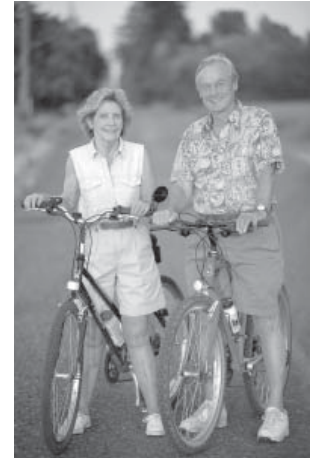
If you are applying for a death benefit from the account of a deceased participant and some benefits have already been paid from that account, credit for part or all of the IIC will already have been used. The non-taxable portion of the death benefit, if any, will be based on several factors: the original IIC; the benefits already paid from the account; and, if the deceased participant was an annuitant, the begin date of the original annuity and the option selected.

If you receive a death benefit as a lump sum or from an annuity certain of less than ten years (additional contributions only), and were not the spouse of the deceased on the date of death, the mandatory 20% withholding does not apply to you and you are not eligible to roll over the taxable portion of your payment(s).

A spouse beneficiary is eligible to roll WRS lump sum death benefits into his or her existing retirement account, such as a traditional IRA, Sec. 403(b) tax sheltered annuity, Sec. 457(b) governmental deferred compensation plan or other eligible employer plan. If a spouse beneficiary has an existing WRS account, he or she cannot currently roll the death benefit into this account. Consult your tax advisor for information.

Only a portion of a death benefit is subject to federal estate tax. For information about the 10-year tax option, estate tax, or capital gains treatment on lump sum death benefits, contact your tax consultant or your nearest IRS office.

Federal distribution requirements are included with a death benefit application sent to a beneficiary.



Payments Exempt From Wisconsin Income Tax

Some payments received from the WRS are exempt for Wisconsin tax purposes (they are not exempt for federal tax purposes):

1. Payments received by a beneficiary of a deceased employee who died on or before December 31, 1967.
2. Payments received from the Wisconsin Retirement System if the payments were paid on the account of a person who was a member of the State Teachers Retirement System or the Milwaukee Teachers Retirement Fund as of December 31, 1963, or was retired from one of those retirement systems as of that date. This exemption also applies to a beneficiary of a person who was a member of one of those systems as of December 31, 1963, or was retired as

of that date, and to an alternate payee under a Qualified Domestic Relations Order if the former spouse qualified for the exemption.

CAUTION:

- Only payments from accounts established before 1964 qualify for the exemption. For example, you were a member of the State Teachers Retirement System as of December 31, 1963, you left teaching after 1963 and withdrew the allowable contributions from your retirement account, completely closing the account. This withdrawal qualifies for the exemption. If you later return to teaching, a new account would be established for you in the retirement system. Any retirement benefits from the new account established after 1963 would not qualify for the exemption.
- Participants in the Wisconsin Retirement System may make voluntary contributions to their retirement accounts in the form of “regular additional contributions” or “tax-deferred (tax-sheltered) additional contributions.” If you qualify for the exemptions described in 2. on page 5, any additional payment you receive as the result of having made “regular additional contributions” is also exempt from Wisconsin income tax. However, any payment you receive as the result of having made “tax-deferred (tax-sheltered) additional contributions” is subject to Wisconsin income tax.
- If payments received from the Wisconsin Retirement System are based on participation in two or more different retirement funds (for example, participation in the State Teachers Retirement System and in the Wisconsin Retirement Fund), the entire payment may not be exempt. See the instructions for your Wisconsin income tax form for further information.

The information in this publication on Wisconsin tax liability reflects the interpretations by the Wisconsin Department of Revenue. Laws enacted after this date, new administrative rules, and court decisions may change the interpretations in this publication.

Great effort has been made to ensure that the information in this circular is accurate. However, if there is any conflict between the information and the law, the law must be followed.

The Department of Employee Trust Funds does not discriminate on the basis of disability in the provision of programs, services or employment. If you are speech, hearing or visually impaired and need assistance, call toll free at 1-877-533-5020 or (608) 266-3285 (local Madison) or TTY (608) 267-0676. We will try to find another way to get the information to you in a usable form.

Wisconsin Department of Revenue Offices

Contact any of the Wisconsin Department of Revenue offices listed below for questions on Wisconsin taxes.

Appleton

265 W. Northland Ave.
(920) 832-2727

Eau Claire

State Office Bldg. – 718 W. Clairemont Ave.
(715) 836-2811

Madison

2135 Rimrock Road
(608) 266-2772
TDD (Telecommunications Device for the Deaf) (608) 267-1049

Milwaukee

State Office Bldg. – 819 N. 6th St.
(414) 227-4000
TDD (414) 227-4147

OR

Contact the Internal Revenue Service for questions on federal taxes at 1-800-829-1040.

For Additional Information

Contact the Department of Employee Trust Funds

Self-Service Toll Free Telephone Services

Available 24 hours a day, seven days a week. You must have a touch-tone telephone to use these systems.

SELF-SERVICE LINE: Call 1-877-383-1888 or (608) 266-2323 (local Madison) to request forms or brochures. Wisconsin Retirement System annuitants may also change their home mailing address or tax withholding election through this self-service line.

TELEPHONE MESSAGE CENTER: Call 1-800-991-5540 or (608) 264-6633 (local Madison) to hear detailed recorded messages covering a variety of Wisconsin Retirement System topics.

Note: You will not be able to talk to a "live" person using these systems. To speak to a benefits specialist, call the telephone numbers listed below.

Visit our Internet Site

Access the internet site at: etf.wi.gov. A tremendous amount of information is on-line regarding the Wisconsin Retirement System and other benefit programs. You may e-mail the Department through this site.

Call During Office Hours

Office Hours: 7:45 am to 4:30 pm, Monday through Friday
(except holidays)

Toll Free: 1-877-533-5020

Madison: (608) 266-3285

TTY: (608) 267-0676 (Teletypewriter for hearing & speech impaired)

Appointments: (608) 266-5717 (Madison)
(414) 227-4292 (Milwaukee)

Write Us

Department of Employee Trust Funds
P. O. Box 7931
Madison, WI 53707-7931

Visit Us

Madison: **An appointment is recommended**
801 West Badger Road

Milwaukee: **An appointment is required**
Until July 9, 2006: 819 North Sixth Street, Room 550
As of July 10, 2006: **NEW OFFICE** 141 N.W. Barstow Street, in Waukesha

**Department of Employee Trust
Funds**

Wisconsin Retirement System
P.O. Box 7931
Madison, Wisconsin 53707-7931